Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Figueroa | Analyst: Kristina North | Bill Number: SB 493

Related Bills: None | Telephone: 845-6978 | Introduced Date: 02/18/99

Attorney: Doug Bramhall | Sponsor:

SUBJECT: California Birth Defects Research Fund

SUMMARY

Under the Administration of Franchise and Income Tax Law, this bill would allow taxpayers to make a voluntary contribution on their personal tax income returns to the California Birth Defects Research Fund.

EFFECTIVE DATE

This bill would apply to taxable years beginning on or after January 1, 1999, and be repealed on January 1, 2005.

BACKGROUND

Twelve voluntary contribution funds appeared on the 1998 state tax return. Total contributions to the funds have declined from approximately $3.4 million in 1989/90 to approximately $2.6 million in 1997/98. The number of individuals contributing (first tabulated in 1993) remains fairly constant at 140,000 to 150,000, or slightly more than 1% of all taxpayers.

SPECIFIC FINDINGS

Current federal law provides a true checkoff to direct $3 of a taxpayer's tax liability to the presidential election fund. Designation of the $3 amount does not affect a taxpayer's tax liability or refund amount.

Current state law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to the 12 voluntary contribution funds listed on the state tax return. Each fund provides for the reimbursement of the Franchise Tax Board (FTB) and Controller's costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. Attachment I shows the specific sunset dates for each voluntary contribution fund and indicates those funds which must meet a minimum contribution test (indexed $250,000) to remain on the return. Attachment II is a chart indicating the number and dollar amount of contributions to the funds for multiple fiscal years.

This bill would establish the California Birth Defects Research Fund and would allow taxpayers to designate their own funds (not tax liability) to the California Birth Defects Research Fund on their tax returns in full dollar amounts in the amount of $1 or more.

Board Position:			Department Director	Date
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The contributions may be made individually by each signatory on a joint return. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

This bill would require the FTB to revise the personal income tax return to include a designation space for the California Birth Defects Research Fund, beginning with 1999 returns filed in 2000.

For taxable years beginning in 2000, **this bill** would require the fund to meet the $250,000 minimum contribution test. Beginning in 2001, the FTB would be required to adjust the $250,000 minimum contribution amount for inflation. If in any calendar year the FTB estimates by September 1 that contributions made under this bill will be less than $250,000 (as indexed), the fund would be repealed.

This bill would provide that a taxpayer's return be treated as if no designation had been made if payments and credits reported on the return, together with any other credits associated with the taxpayer's account, do not exceed the taxpayer's liability. In the event that no designee is specified, the designated contribution would be transferred to the General Fund.

This bill would provide that if a taxpayer designates a contribution to more than one fund on the tax return, and the amount available for contribution is insufficient to satisfy the total amount designated, the contribution would be allocated on a pro rata basis.

This bill would require the Controller to transfer from the Personal Income Tax Fund to the California Birth Defects Research Fund the total amount designated for contribution by taxpayers to that fund.

This bill would require all money transferred to the California Birth Defects Research Fund, upon appropriation by the Legislature, be allocated to: 1) the FTB and the Controller for reimbursement of costs incurred performing their duties under this article, and 2) to the State Department of Health Services for allocation to the birth defects monitoring program.

Policy Considerations

The placement of voluntary contributions on the tax return limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately impair tax collection and reduce administrative efficiency.

Implementation Considerations

Currently, the tax forms suffer from serious space constraints. The forms and instructions were designed to accommodate up to 12 non-tax related voluntary contributions, currently taking up approximately one-fourth of a page on tax returns and approximately three-fourths of a page in the instruction booklets. To illustrate, on the Form 540EZ and the Form 540A, the taxable income calculations, tax and credits calculations, and the amount of refund or tax owed each occupy approximately one-eighth of a page, or half as much space as currently dedicated to voluntary contributions. No funds are set to expire for the 1999 tax year. This bill would require the addition of a 13^{th} voluntary contribution fund.

The 13th contribution fund may require major design changes on certain forms, such as double-stacking the listing. Such changes would require smaller size type, making the entries difficult to follow for the taxpayer and department staff.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on the information and assumptions discussed below, the potential revenue losses would be insignificant, $15,000 or less annually, beginning with fiscal year 2000/2001 as a result of itemized deductions for the contributions.

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

Tax Revenue Discussion

According to departmental data, more than 433,000 contributions by approximately 140,000 taxpayers, totaling more than $2.6 million were made to 12 specified funds in fiscal year 1997/1998, with an average of $6 per individual contribution. Assuming 1) the contributed amounts are included in itemized charitable deductions; 2) a 2% annual growth in contributions; 3) an average marginal tax rate of 6%; and 4) no reductions for other contributions normally reported, the annual revenue loss would be on the order of $15,000 per year.

BOARD POSITION

Pending.